MULTIMEDIA UNIVERSITY

STUDENT ID NO.

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019/2020

BEC1834 – MICROECONOMICS

(All sections / Groups)

19 OCTOBER 2019
9.00 a.m. - 11.00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **TWELVE (12)** printed pages including cover with **TWO (2)** sections as follows:
   - **Section A:** Multiple-choice Questions (40 Marks)
   - **Section B:** Structured Questions (60 Marks)

2. Marks are shown at the end of each question.

3. Answer **ALL** questions in **Sections A** and **B**.

4. The answers for **Section A** should be shaded on the Multiple-choice Answer Sheet. The answers for **Section B** should be written in the Answer Booklet.

SECTION A: MULTIPLE-CHOICE QUESTIONS (40 MARKS)

Instructions: Answer ALL questions in this section. Shade the answers on the Multiple-choice Answer Sheet.

1. A decrease in the price of a good would
   a. increase the supply of the good.
   b. increase the quantity demanded of the good.
   c. give producers an incentive to produce more to keep profits from falling.
   d. shift the supply curve for the good to the left.

2. A downward-sloping demand curve illustrates
   a. that demand decreases over time.
   b. that prices fall over time.
   c. the relationship between income and quantity demanded.
   d. the law of demand.

3. Suppose the American Medical Association announces that men who shave their heads are less likely to die of heart failure. We could expect the current demand for
   a. hair gel to increase.
   b. razors to increase.
   c. combs to increase.
   d. shampoo to increase.

4. If the price of a good is low,
   a. firms would increase profit by increasing output.
   b. the quantity supplied of the good could be zero.
   c. the supply curve for the good will shift to the left.
   d. firms can and should raise the price of the product.

5. Which of the following would cause a movement along the supply curve for cupcakes?
   a. an improvement in technology for commercial mixers
   b. a decrease in the price of cupcakes
   c. an increase in the price of cake flour
   d. All of the above are correct.

6. If the price elasticity of demand for a good is 1.4, then a 14 percent increase in the quantity demanded must be the result of
   a. a 0.1 percent decrease in the price.
   b. a 1 percent decrease in the price.
   c. a 10 percent decrease in the price.
   d. a 19.6 percent decrease in the price.

Continued...

7. In general, elasticity is a measure of
   a. the extent to which advances in technology are adopted by producers.
   b. the extent to which a market is competitive.
   c. how firms' profits respond to changes in market prices.
   d. how much buyers and sellers respond to changes in market conditions.

8. The case of perfectly elastic demand is illustrated by a demand curve that is
   a. vertical.
   b. horizontal.
   c. downward-sloping but relatively steep.
   d. downward-sloping but relatively flat.

9. If a tax is levied on the buyers of dog food, then
   a. buyers will bear the entire burden of the tax.
   b. sellers will bear the entire burden of the tax.
   c. buyers and sellers will share the burden of the tax.
   d. the government will bear the entire burden of the tax.

10. New cars are normal goods. What will happen to the equilibrium price of new cars if the price of gasoline rises, the price of steel falls, public transportation becomes cheaper and more comfortable, auto-workers accept lower wages, and automobile insurance becomes more expensive?
    a. Price will rise.
    b. Price will fall.
    c. Price will stay exactly the same.
    d. The price change will be ambiguous.

11. Consider the market for new DVDs. If DVD players became cheaper, buyers expected DVD prices to fall next year, used DVDs became more expensive, and DVD production technology improved, then the equilibrium price of a new DVD would
    a. rise.
    b. fall.
    c. stay the same.
    d. could rise, fall, or remain unchanged.

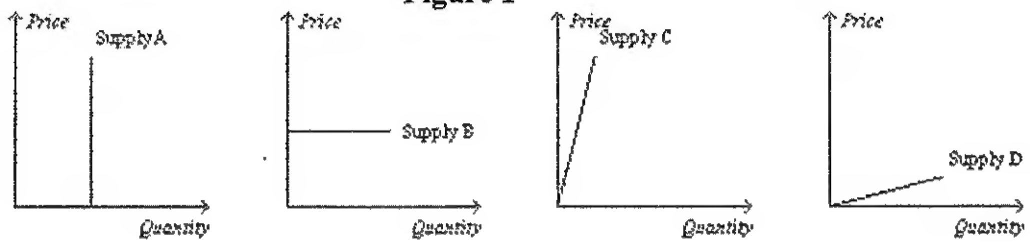
12. The price elasticity of demand for a good measures the willingness of
    a. consumers to buy less of the good as price rises.
    b. consumers to avoid monopolistic markets in favor of competitive markets.
    c. firms to produce more of a good as price rises.
    d. firms to respond to the tastes of consumers.

Continued...

13. For a particular good, a 5 percent increase in price causes a 2 percent decrease in quantity demanded. Which of the following statements is most likely applicable to this good?
    a. There are many close substitutes for this good.
    b. The good is a luxury.
    c. The market for the good is broadly defined.
    d. The relevant time horizon is long.

14.

Figure 1



Refer to Figure 1. Which of the following statements is not correct?
    a. Supply curve A is perfectly inelastic.
    b. Supply curve B is perfectly elastic.
    c. Supply curve C is unit elastic.
    d. Supply curve D is more elastic than supply curve C.

15. A minimum wage that is set above a market's equilibrium wage will result in an excess
    a. demand for labor, that is, unemployment.
    b. demand for labor, that is, a shortage of workers.
    c. supply of labor, that is, unemployment.
    d. supply of labor, that is, a shortage of workers.

16. The theory of consumer choice examines how
    a. firms make profit-maximizing decisions.
    b. consumers make utility-maximizing decisions.
    c. wages are determined in competitive labor markets.
    d. prices are determined in competitive goods markets.

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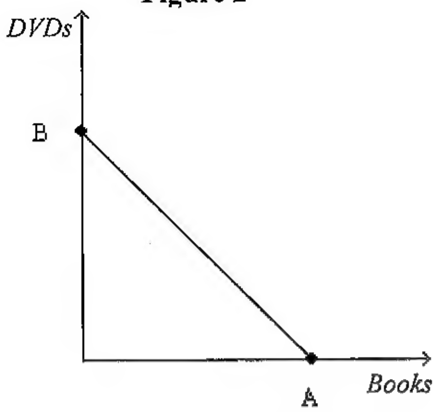
Figure 2



17. Refer to **Figure 2**. Suppose a consumer has RM500 in income, the price of a book is RM10, and the value of B is 50. What is the price of a DVD?
    a. RM5
    b. RM10
    c. RM50
    d. RM100

18. Refer to **Figure 2**. Suppose a consumer has RM200 in income, the price of a book is RM5, and the price of a DVD is RM10. What is the value of A?
    a. 40
    b. 20
    c. 10
    d. 2

19. A good is an inferior good if the consumer buys more of it when
    a. his income rises.
    b. the price of the good falls.
    c. the price of a substitute good rises.
    d. his income falls.

20. When economists describe preferences, they often use the concept of
    a. markets.
    b. income.
    c. utility.
    d. prices.

21. A key characteristic of a competitive market is that
    a. government antitrust laws regulate competition.
    b. producers sell nearly identical products.
    c. firms minimize total costs.
    d. firms have price setting power.

Continued…

22. Who is a price taker in a competitive market?
    a. buyers only
    b. sellers only
    c. both buyers and sellers
    d. neither buyers nor sellers

23. Which of the following statements best reflects a price-taking firm?
    a. If the firm were to charge more than the going price, it would sell none of its goods.
    b. The firm has an incentive to charge less than the market price to earn higher revenue.
    c. The firm can sell only a limited amount of output at the market price before the market price will fall.
    d. Price-taking firms maximize profits by charging a price above marginal cost.

24. **Table 1** below represents the numerical information of a demand curve faced by a firm in a competitive market.

Table 1

Price	Quantity
RM3	0
RM3	1
RM3	2
RM3	3
RM3	4
RM3	5

Refer to **Table 1**. This firm maximizes total revenue by producing
    a. 1 units.
    b. 3 units.
    c. 5 units.
    d. as many units as possible.

25. Refer to **Table 1**. For this firm, the average revenue from selling 3 units is
    a. RM12.
    b. RM4.
    c. RM3.
    d. RM1.

Continued...

26. A perfectly competitive firm produces where
    a. marginal cost equals price, while a monopolist produces where price exceeds marginal cost.
    b. marginal cost equals price, while a monopolist produces where marginal cost exceeds price.
    c. price exceeds marginal cost, while a monopolist produces where marginal cost equals price.
    d. marginal cost exceeds price, while a monopolist produces where marginal cost equals price.

27. Because a monopolist does not face competition from other firms, the outcome in a market with a monopoly
    a. does not illustrate profit maximization.
    b. is often not in the best interest of society.
    c. is characterized by unlimited profits.
    d. would be improved if the government produced the product rather than a private firm.

28. The fundamental source of monopoly power is
    a. barriers to entry.
    b. profit.
    c. decreasing average total cost.
    d. a product without close substitutes.

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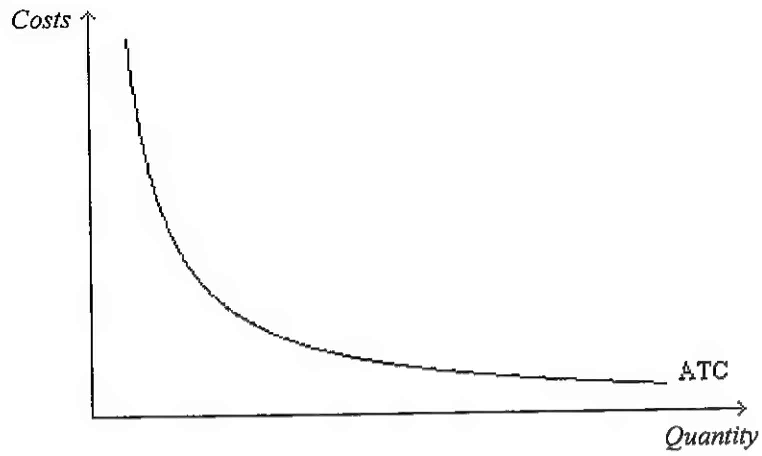
Figure 3



29. Refer to **Figure 3**. The shape of the average total cost curve reveals information about the nature of the barrier to entry that might exist in a monopoly market. Which of the following monopoly types best coincides with the figure?
    a. ownership of a key resource by a single firm
    b. natural monopoly
    c. government-created monopoly
    d. a patent or copyright monopoly

30. Refer to **Figure 3**. The shape of the average total cost curve in the figure suggests an opportunity for a profit- maximizing monopolist to take advantage of
    a. economies of scale.
    b. diseconomies of scale.
    c. diminishing marginal product.
    d. increasing marginal cost.

31. Monopolistic competition is a type of
    a. oligopoly.
    b. market structure.
    c. price discrimination.
    d. advertising strategy.

32. The two types of imperfectly competitive markets are
    a. monopoly and monopolistic competition.
    b. monopoly and oligopoly.
    c. monopolistic competition and oligopoly.
    d. monopolistic competition and cartels.

Continued...

33. An oligopoly is a market in which
    a. there are only a few sellers, each offering a product similar or identical to the products offered by other firms in the market.
    b. firms are price takers.
    c. the actions of one seller in the market have no impact on the other sellers' profits.
    d. there are many price-taking firms, each offering a product similar or identical to the products offered by other firms in the market.

34. Which of the following is unique to a monopolistically competitive firm when compared to an oligopoly?
    a. The monopolistically competitive firm advertises.
    b. The monopolistically competitive firm produces a quantity of output that falls short of the socially optimal level.
    c. Monopolistic competition features many buyers.
    d. Monopolistic competition features many sellers.

35. In the short run, a firm in a monopolistically competitive market operates much like a
    a. firm in a perfectly competitive market.
    b. firm in an oligopoly.
    c. monopolist.
    d. monopsonist.

36. Which of the following statements about oligopolies is not correct?
    a. An oligopolistic market has only a few sellers.
    b. The actions of any one seller can have a large impact on the profits of all other sellers.
    c. Oligopolistic firms are interdependent in a way that competitive firms are not.
    d. Unlike monopolies and monopolistically competitive markets, oligopolies prices do not exceed their marginal revenues.

37. Which of the following examples illustrates an oligopoly market?
    a. a farmers' market with many individuals selling sweet corn and tomatoes
    b. a city whose electrical service is provided by one electric co-operative
    c. a city with two firms who are licensed to sell school uniforms for the local schools
    d. a city with many independently-owned hair styling salons

38. A special kind of imperfectly competitive market that has only two firms is called
    a. a two-tier competitive structure.
    b. an incidental monopoly.
    c. a doublet.
    d. a duopoly.

Continued…

39. As a group, oligopolists would always be better off if they would act collectively
    a. as if they were each seeking to maximize their own individual profits.
    b. in a manner that would prohibit collusive agreements.
    c. as a single monopolist.
    d. as a single perfectly competitive firm.

40. A situation in which firms choose their best strategy given the strategies chosen by the other firms in the market is called
    a. a competitive equilibrium.
    b. an open-market solution.
    c. a socially-optimal solution.
    d. a Nash equilibrium.

SECTION B: STRUCTURED QUESTIONS (60 MARKS)
Instructions: Answer ALL questions in this section in your Answer Booklet.

Question One (20 marks)

(a) **Table 2** below shows the supply and demand schedules in a market.

Table 2

Price (RM)	Quantity Demanded (units)	Quantity Supplied (units)
0	50	0
2	40	15
4	30	30
6	20	45
8	10	60
10	0	75

(i) What is the equilibrium price in this market? (1 mark)

(ii) What is the equilibrium quantity in this market? (1 mark)

(iii) At a price of RM2, will there be a surplus or shortage of units in this market? (1 mark)

(iv) At a price of RM8, how large of a surplus will there be in this market? (1 mark)

(v) If the supply curve shifts to the right, will the price in this market rise or fall? (2 marks)

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(b) (i) Describe both a binding price ceiling, and a binding price floor.
(4 marks)

(ii) Illustrate using two separate graphs whether the effect of both a binding price ceiling, and a binding price flor is a shortage or a surplus respectively.
(10 marks)

Question Two (20 marks)

(a) Assess the **THREE (3)** characteristics of a perfectly competitive market.
(6 marks)

(b) At its current level of production, a profit-maximizing firm in a competitive market receives RM12.50 for each unit it produces and faces an average total cost of RM10. At the market price of RM12.50 per unit, the firm's marginal cost curve crosses the marginal revenue curve at an output level of 1,000 units.

Infer the firm's current profit and explain what is likely to occur in this market.
(4 marks)

(c) (i) Explain why would a firm in a perfectly competitive market always choose to set its price equal to the current market price.
(4 marks)

(ii) If a firm set its price below the current market price, infer the effect would this have on the market.
(2 marks)

(c) Explain the defining characteristic of a natural monopoly and provide an example of a natural monopoly.
(4 marks)

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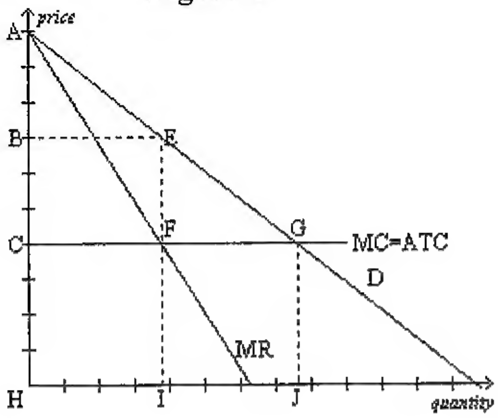
Question Three (20 marks)

(a) **Refer to Figure 4** below to answer the following questions.

Figure 4



(i) **Refer to Figure 4.** Infer the alphabet in the graph that represents the profit-maximizing quantity chosen by the single price monopolist.

(2 marks)

(ii) **Refer to Figure 4.** Infer the alphabet in the graph that represents the profit-maximizing price chosen by the single price monopolist.

(2 marks)

(iii) **Refer to Figure 4.** Infer the alphabets in the graph to identify the profit area for the single price monopolist.

(2 marks)

(iv) **Refer to Figure 4.** Infer the alphabets in the graph to identify the area of deadweight loss for the single price monopolist.

(2 marks)

(v) **Refer to Figure 4.** If this firm were able to perfectly price discriminate, infer which alphabet represents the amount of output it would produce?

(2 marks)

(b) Assess what is meant by the term "excess capacity" as it relates to monopolistically competitive firms.

(4 marks)

(c) Assess the output and price effects that influence the profit-maximizing decision faced by a firm in an oligopoly market. How does this differ from output and price effects in a monopoly market?

(6 marks)

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